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April 21, 2006

Mike Grant
Gallagher & Kennedy, P.A.
2575 East Camelback Rd.
Phoenix, Arizona 85016-9225

John Wallace
GCSECA
120 North 44th Street Suite 100
Phoenix, Arizona 85034

Re: Application Duncan Rural Services Corporation for a Rate Increase Docket No. G-02528A-05-0314

(CONSOLIDATED WITH DOCKET G-02528A-03-0205) *

Dear Duncan Rural Services, Inc.:

The purpose of this letter is to inform Duncan Rural Services Corporation ("Duncan") of Staff's understanding and intentions regarding Commission Decision No. 68599 (March 23, 2006) and, specifically, implementation of the fifth ordering paragraph (page 10, lines 26-28) which relates to the operation of the purchased gas adjustor ("PGA") mechanism.

Staff's understanding of this ordering paragraph is as follows: As a result of this ordering paragraph, the monthly PGA rate shall be calculated as it has been in the past, relying on the mechanical calculation of the twelve-month rolling average cost. The only change that results from this ordering paragraph is that the previous \$0.10 per therm annual bandwidth is changed to now limit the change in the monthly PGA rate charged to customers to no more than \$0.10 per therm different from the previous month's PGA rate charged to customers.

Staff will review Duncan's next monthly PGA filing to determine whether the filing is consistent with Staff's understanding of how the PGA mechanism works. If Duncan's next monthly PGA filing is not consistent with Staff's understanding of how the PGA mechanism works, Staff will expect Duncan to correct its filing so that the rate comports with Staff's method of calculating the monthly PGA rate.

*** DOCKET ADDED ON 5-26-06 FOR PURPOSES OF DOCKETING IN CONSOLIDATED DOCKETS**

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If you have any questions about this matter, please contact Steve Irvine of our Staff at (602) 542-0824, or me, at (602) 542-0745.

Sincerely,

A handwritten signature in black ink, appearing to read 'EGJ', with a long horizontal flourish extending to the right.

Ernest G. Johnson
Director
Utilities Division

EGJ:tdp